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RUEHNE/AMEMBASSY NEW DELHI 0033
RUEHOT/AMEMBASSY OTTAWA 0048
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SUBJECT: Namibia's Lone Gold Mine Plans to Double Output

REF: WINDHOEK 201

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¶1. (SBU) Summary. AngloGold Ashanti's Navachab Gold Mine is Namibia's only gold producer. The open-pit mine is located in a region that hosts numerous low-grade and uneconomic deposits, but the potential for expansion is favorable. Navachab is a small producer with an output of about one to one-and-a-half percent of AngloGold's global gold production. Although small in production terms, the mine has a large socio-economic footprint in a remote region where there are few other employment opportunities. The mine recruits labor and staff almost exclusively from local communities, which it also supports by providing facilities and services in education, training, health, and recreation. The HIV-prevalence rate for mine workers is estimated at eight percent, compared to the national average of 15.4 percent. Navachab is in the process of expanding and diversifying its resource base and mining operations with the aim of doubling its gold output over the next few years. Navachab's gross sales in 2008 represented about 0.7 percent of Namibia's GDP, and the company contributed about 1.4 percent of government revenues. End Summary.

Visit to Navachab Open-Pit Gold Mine

¶2. (SBU) Navachab Gold Mine is the only operating gold mine in Namibia. It is a low-grade, high-tonnage, open-pit mine, which is wholly-owned by AngloGold Ashanti of South Africa. The mine is located near the town of Karibib, 170 kilometers northwest of Windhoek. The current life of the mine is to 2016, but proposed pit expansions will increase this by an estimated seven years. Future production from other identified satellite pits could extend its life beyond this date. Navachab mine reached full production in 1990 with a plant capacity of 120,000 tons per month to produce about 2.5 tons of gold per year. This represents one to one-and-a-half percent of AngloGold's total annual gold output. Production is by conventional open pit mining, followed by crushing, milling, cyanide solution, carbon-in-pulp (CIP) precipitation, and gold recovery by electro-winning.

Geology is Key to Expanding Production

¶13. (SBU) The Navachab orebody comprises a 35 meter-thick marble unit with vein mineralization extending above and below it. The deposit is estimated to contain 10.4 million tons of ore with an average grade of 2.3 grams of gold per ton. There is a further 6.5 million tons of marginal ore with an average grade of 0.66 grams per ton. Reserves and resources are being expanded as drilling proceeds. A number of satellite deposits are currently being evaluated for future mining. Current reserves and indicated reserves contain 3.7 and 40.6 tons of gold (116,000 and 1.27 million ounces, respectively). These amounts could double as other possible resources are firmed up. A reinterpretation of the geology of the Navachab deposit resulted in the identification of additional target areas. Drilling has significantly expanded the mine's resource base and production strategy, and have added many years to the mine's life, which was originally estimated at thirteen years.

Recovering Gold at Navachab

¶14. (SBU) The Navachab pit is mined by conventional open-pit methods and will, according to mine management, reach a final depth of 164 meters. The deposit is open-ended, leaving room for further expansion. The current mining rate is about 7.3 million tons of rock per year. The mine is a single-train operation comprising drills, excavator, crusher, and mill. Thus a failure along any part of the line can halt operations. This poses production risks as the operation requires good management and maintenance skills, which are

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lacking due to the loss of skills to local and international competitors. Gold production declined by 15 percent to 68,000 ounces in 2008, as a result of the shortage of skilled maintenance personnel. Capital expenditure of USD \$18 million is scheduled for 2009 and will be spent on implementing a dense media separation (DMS) plant as well as for upgrading the mine and plant's capacity and performance. Gold production for 2009 is projected to increase to 70,000 ounces at a total cash cost of USD \$430-\$450 per ounce. Navachab told us the mine would remain profitable as long as gold stays above USD \$500 an ounce. The DMS plant will have a capacity of 200 tons per hour and cost USD \$21.5 million to construct. It will increase production and enable the economic processing of the mine's below-grade stockpile. These expansion projects could double production in a few years.

Looking After the Mine's Assets

¶15. (SBU) Navachab mine employs 360 full-time staff and 100 contractors. Mine management appears safety- and health-conscious and maintains that the mine has never had a fatal accident. As of April 1, the mine had achieved 507 days without a lost time injury (LTI). On the health front, the last voluntary testing program (in 2008) indicated an eight percent HIV prevalence. This level is low compared to the estimated 15.4 percent national average, which management ascribes to recruitment from stable local communities. Navachab's management also believes that recruitment of local residents explains the generally good industrial relations it has with the labor force and the low number of labor actions over the years. The mine protects the environment through implementation of the International Cyanide Management Code and, for the future, development of a mine closure plan, which has been approved and funded in a registered rehabilitation trust fund.

Navachab's Contribution to the Namibian Economy

¶16. (SBU) Navachab's gross sales in 2008 reached N\$492.9 million about 0.7 percent of Namibia's gross domestic product. The company paid out N\$58 million in taxes and an additional N\$ 14.7 in royalty fees, contributing to about 1.4 percent of total government

revenues.

Navachab Adds Value for Local Communities

¶7. (SBU) Namibians comprise at least 97 percent of the permanent staff and contractors employed by Navachab mine, of which the vast majority are recruited from local communities. The mine provides funds and facilities for education and training through scholarships, basic adult education classes, apprenticeships, study loans, and management grooming. There is a skills shortage at the mine, particularly at the operator level, but management believes the closure of other mines (primarily copper) in Namibia will increase availability of both skilled labor and equipment. Navachab is a relatively small mine with a big socio-economic footprint. The mine pumped some USD \$26 million into the greater Karibib community and the country in 2007 through payment of wages, corporate taxes (37.5 percent), capital purchases, and royalties(3 percent). This does not include the mine's support for local schools and sports.

Navachab Mine Management Issues and Non-Issues

¶8. (SBU) Mine management described the following major challenges confronting the mine:

-- Water scarcity, which ongoing desalination projects (reftel) may resolve;

-- Low ore grades, which require constant cost and management

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vigilance;

-- Aging mine infrastructure and the lack of skills needed to maintain operational integrity;

-- Limited capacity because of the single-train design of the mine and plant;

-- Gold price fluctuations, which inhibit both production and financial planning;

-- Input cost increases, which amounted to nearly 58 percent in 2007;

Other Gold Sources in Namibia

¶9. (SBU) Gold is also recovered in small quantities from base metal mines in Namibia, but this source has declined since closure of the country's four copper mines. A new gold mine with a similar geology to that of Navachab -- Otjikoto -- is being developed to produce two tons of gold annually by 2013. The project is owned by Teal Exploration and Mining, a subsidiary of South Africa's African Rainbow Minerals (ARM).

¶10. (SBU) Comment: Gold's impact on the Namibian economy is less dramatic than commodities like diamonds and uranium. Nevertheless, Navachab gold mine is important to both Namibia and AngloGold Ashanti because it provides some level of diversification. Gold demand and prices have withstood the global commodity downturn. End comment.

Embassy Team Visit to Namibia

¶11. (SBU) In a collaborative effort, officers and specialists from both Embassy Pretoria and Embassy Windhoek visited mines, industry, and government offices in Namibia March 30-April 3 with a focus on assessing Namibia's mining sector. Embassy Windhoek wishes to thank Embassy Pretoria's David Young and Paul White for their assistance with the mining sector review.

MATHIEU